



Memorandum

TO: HONORABLE MAYOR AND SAN JOSE CITY COUNCIL

FROM: Scott P. Johnson
Ralph Tonseth

SUBJECT: CITY OF SAN JOSE AIRPORT
REVENUE BONDS, SERIES 2004
(SECURITY PROJECTS)

DATE: February 25, 2004

Approved

Date

COUNCIL DISTRICT: City-Wide
SNI: N/A

RECOMMENDATION

1. Adoption of a resolution authorizing the City Manager to negotiate and execute an Agreement with Fullerton & Friar, Inc. and Public Resources Advisory Group for financial advisory services in an amount not to exceed \$210,000 for the term of January 12, 2004, to December 31, 2004.
2. Adoption of a resolution authorizing the City Attorney to negotiate and execute an Agreement with Orrick, Herrington & Sutcliffe LLP for bond and disclosure counsel services in an amount not to exceed \$250,000 for the term of January 12, 2004, to December 31, 2004.

BACKGROUND

As discussed during the April 1, 2003, City Council meeting, the Departments of Finance and Airport have been developing a strategy to implement a financing program to fund the Airport's security projects, which includes construction of the North Concourse Building (the "Projects"). Initial costs of the Projects are being paid from proceeds of the Airport's tax-exempt commercial paper notes, as approved by the City Council on April 1, 2003. The notes will be redeemed and additional costs funded with approximately \$250 million in Airport revenue bonds expected to be issued in June, 2004. Based on the current project schedule, additional Airport revenue bonds are anticipated to be issued in 2006 to fully fund the Projects.

The June 2004 financing will be designated the City of San José Airport Revenue Bonds, Series 2004 (the "Bonds"). The City's financing team for the Bonds will be comprised of City staff from the Airport and Finance Departments, the City Attorney's Office, co-financial advisors, bond counsel, disclosure counsel, underwriter(s) and their counsel. The co-financial advisors for the Bonds will be the City's current co-financial advisors for the Airport Master Plan, Fullerton & Friar, Inc. and Public Resources

Advisory Group. Their current contract requires execution of a separate contract with the City for services related to the issuance of bonds. The City Attorney has selected bond and disclosure counsel for the financing.

ANALYSIS

The Finance and Airport Departments are recommending authorization for the City Manager to negotiate and execute an agreement with the City's co-financial advisors for financial advisory services related to the Bonds. Their current agreement with the City (approved by the Council on March 21, 2000, and as subsequently amended) provides general financial advisory services related to the Airport Master Plan on a time and materials basis. The agreement specifies that financial advisory services specific to a bond issuance will be provided pursuant to a separate agreement by and among the City and the co-financial advisors.

The agreement sets forth a fee schedule for additional services related to specific bond issues to be provided with compensation to be contingent on the sale of bonds. Their total compensation for this recommended contract will not exceed \$210,000, of which \$190,000 will be for professional services and \$20,000 for reimbursable expenses. Professional fees will be split 50/50 between each firm. The term of the agreement will be retroactive from January 12, 2004, and will expire following issuance of the proposed bonds, which staff estimates will occur in June, 2004. The firms' compensation is contingent on the sale of Bonds and is to be paid from bond proceeds.

The City Attorney's Office is recommending that the City Attorney be authorized to negotiate and execute an agreement with Orrick, Herrington & Sutcliffe LLP for bond and disclosure counsel services related to the Bonds in an amount not to exceed \$250,000. Orrick, Herrington & Sutcliffe has previously provided bond and disclosure counsel services related to the City's issuance of Airport debt. Accordingly, they are familiar with the structure of the City's Airport debt portfolio as well as other issues related to the City's issuance of Airport revenue bonds. The term of the agreement with Orrick, Herrington & Sutcliffe will also be retroactive from January 12, 2004, and will expire following issuance of the proposed bonds. The firm's compensation is contingent on the sale of the Bonds and is to be paid from bond proceeds.

PUBLIC OUTREACH

Public outreach is not required for this action.

COORDINATION

This report was prepared by the Finance Department in coordination with the Airport Department and the City Attorney's Office.

COST IMPLICATIONS

Compensation for the financial advisors and bond and disclosure counsel are contingent upon the successful sale and closing of the Bonds.

CEQA

Resolutions No. 67380 and 71451, PP 04-02-052.

SCOTT P. JOHNSON
Director, Finance Department

RALPH G. TONSETH
Director, Airport Department